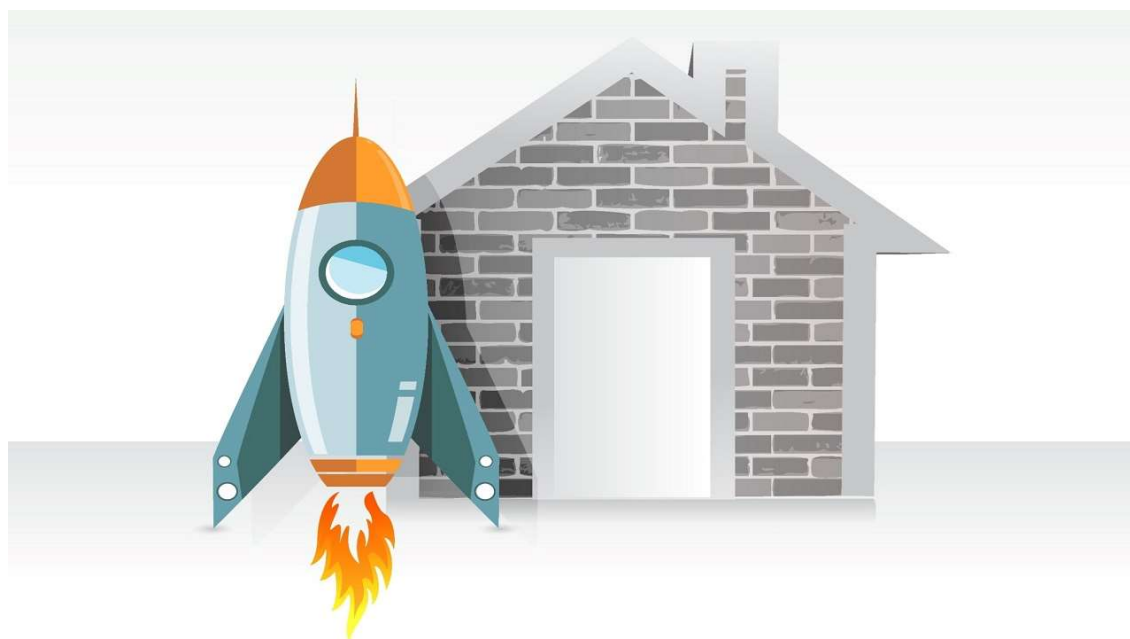


David Hargreaves has a look at the housing market's prospects in the wake of some strong Auckland monthly sales figures and ahead of a pivotal (for the housing market) election

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ON THE LAUNCH PAD AGAIN? With New Zealanders and houses, never say never. Source: 123rf.com

So, was anybody else a bit surprised at the strength of the [August sales data](#) released this week by Auckland's largest real estate agents Barfoot & Thompson?

The 879 sales recorded was by a distance the most for the company so far this year, easily outstripping the previous high of 765. New listings, at 1577, also easily surpassed the previous 2023 high of 1460 in March.

And all this only around two months out from an election that will likely have a significant impact on the housing market.

We can't quite compare apples with apples when it comes to looking at what happened in the run-up to previous elections because those fickle politicians keep changing the dates on us, but we can kind of have a go by picking 'equivalent' months around two months before ballot day. So, here going back to 2011 are the Barfoot & Thompson new listings and sales figures about two months before the election. (The 2020 election was also October, while in 2017 and 2014 it was September and in 2011 it was November.)

Month	New Listings	Sales
Aug-23	1577	879
Aug-20	1354	1055
Jul-17	1173	747
Jul-14	1396	983
Sep-11	1263	738

What we have seen in the past is that house buyers and sellers can tend to hold off in the run-up to an election (2011 was particularly notable) as they don't know what sort of policy mix might be prevailing after - and what that might do for house values.

Okay, we shouldn't make too much of just one month's worth of activity, but the August 2023 figures stand out both for being very much the strongest figures in what's been a very weak year and for being comparatively quite strong when compared with equivalent months leading up to previous elections.

Perhaps it's dangerous to draw conclusions but it suggests a fair few people are expecting National, with its housing market-friendly policies, to win the election and that in any case the worst is over with the housing market and the recent string of falls in prices we've seen.

Are people right? Well, it is definitely worth asking the question of where to from here? I'm certainly not going to try to predict what happens with the market. That way madness lies. But it's worth having a look at the scenarios. Without trying to state the obvious, it seems to me that what happens next could follow any of the following lines and I don't ascribe greater or lesser odds to any of them:

- The current uptick in activity is short-run. Gloom and doom resumes from here and prices start falling again.
- Prices and activity kind of 'drift along the bottom' for the foreseeable future.
- Prices and activity slowly pick up from here but don't set the world on fire. (The Reserve Bank is picking this, as are many bank economists).
- Prices and activity start to quickly pick up and we move back into 'party' mode again.
- Something nasty happens on the world stage (think GFC) and the market's legs are knocked out from under it (a la the GFC).

I think I've covered most things there. Anything I've missed? So, what do you think comes next?

It seems to me that, certainly in the last 20 years, the kind of 'default' setting for the New Zealand housing market is 'frothy'. Home ownership and housing investment have always been deeply rooted in the NZ psyche. But it seems to me that particularly in the last 20 years - and kicking off with the galloping market we saw in the mid-2000s - the obsession moved to a new level. The number of times we've seen the market overheat has reflected that.

And it does feel at the moment that there are people out there, restless, waiting for the housing 'machine' to start up again. After all it's now been two years since we were in a bull housing market frenzy.

Looking back at the previous market rise it seemed on the face of it utterly preposterous given we were in the middle of a pandemic. But like all these things we can find at least some explanation by examining all the circumstances.

The key thing is that interest rates had hit the floor, allowing momentous amounts of money to be borrowed with interest servicing costs that were actually eminently doable. That was the fuel. All we needed was ignition. And that was supplied by the RBNZ's ['interesting' decision to temporarily remove the loan-to-value ratio limits from May 1, 2020.](#)

Clearly, things are different now. The LVRs are back. Mortgage interest rates are around 7%, while in 2020-21 they were well under 3%.

The impact of interest rate levels on the housing market can't be overstated.

The RBNZ [put out some most interesting work](#) in the middle of last year that put our experiences of low interest rates and high house prices into a global context - and the fact was that post the 2008 GFC we saw, compared with other countries, one of the biggest falls in mortgage rates in this country, along with high population growth.

So, we got what we got, culminating in the hair raising 40%+ price surge during the pandemic.

The current level of interest rates would appear to be a significant drag factor when looking at the prospect of any sort of repetition of a raging bull house market.

In 2021 if you borrowed \$1 million to buy an Auckland-priced average house you might have been paying around \$4,200 a month in interest costs. Now you would pay \$6650. That's quite a handbrake.

How long will interest rates stay this high then? Well, the RBNZ's signalling that it doesn't see the Official Cash Rate starting to come down till into 2025 - well over a year away yet. That doesn't mean that mortgage rates can't and won't come down earlier if wholesale interest rate levels are anticipating falling rates.

But it would be intriguing to see how the RBNZ reacted if mortgage rates did start dropping before it felt it had inflation (6% annual rate as of the June quarter) completely under control. Earlier this year the RBNZ put out a discussion paper that suggested that [central banks could be "justified" in using interest rate rises to combat high house prices](#). That would certainly be an interesting approach.

Would the current interest rate levels necessarily prevent the housing market from really starting to bubble again though?

Well, as mentioned higher up this article, the RBNZ did explicitly reference NZ's high population growth as a key factor in our high house prices. Obviously with closed borders the population hasn't grown that much in the past few years, but it's surging again now thanks to a new wave of inbound migration. That will certainly continue under a new National Government.

Overseas buyers have been largely ruled out - but they will be back in business under a National Government. And then the reversion back of the Brightline test (don't call it a capital gains tax, whatever you do!) back to the two years it was originally when the previous National Government introduced it. And then there will be the re-introduction of interest deductibility for housing investors.

At least some of these factors would likely be relatively impervious to elevated interest rates.

The election result is crucial as is the aftermath and what policies will prevail regarding housing. It seems at least some people are betting already (by buying now) on what will materialise.

We've seen before that it takes very little to flip the switch in this country from FOOP (fear of over-paying) to the more customary FOMO (fear of missing out). It will be a case of when not if.

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